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C O N F I D E N T I A L SECTION 01 OF 03 BOGOTA 000224

SIPDIS

STATE PLEASE PASS TO USTR: KENNETH SCHAGRIN

E.O. 12958: DECL: 01/07/2015
TAGS: ECON ECPS CO FTA
SUBJECT: TELECOMMUNICATIONS, THE FTA, AND THE NEED FOR PRIVATIZATION

REF: A. REFTEL A: BOGOTA 12921
¶B. REFTEL B: BOGOTA 12925
¶C. REFTEL C: BOGOTA 10132

Classified By: Deputy Chief of Mission Milton K. Drucker for reasons 1.4 (b) and (d).

¶1. (C) Summary. While the telecommunications chapter in the Andean Free Trade Agreement (FTA) should conclude at the next round, Colombia will be unable to fully enjoy the benefits of the chapter without either privatization or joint ventures as well as more autonomy for the Colombian Regulator (CRT). Nevertheless, significant opposition to privatization exists from various sectors in Colombia. In general, the sector enjoyed a good year in 2004, especially in the wireless area, but continued growth faces important structural obstacles. End Summary.

Background

¶2. (C) The telecommunications sector as a percentage of GDP reached 2.8 percent for 2003 and is expected to grow to 3 percent of GDP for 2004. There are only three long distance operators, two state-owned and one 50 percent state-owned, three cellular operators, two private and one state-owned, one private trunking operator, and over a hundred local landline operators, many of which are unauthorized. All three long distance operators are losing market share to the cellular operators, and industry experts state that as individual companies, none of them are able to compete against the capital-rich private carriers. Corruption continues to be a major problem for the state-owned companies. This compelled the Colombian negotiating team to request U.S. assistance, in the form of a side letter, in the telecommunications chapter of the FTA. In the face of a free trade agreement (FTA) with the U.S., industry experts claim Colombia's telecommunications sector needs to privatize to gain more capital and provide better infrastructure, reduce corruption, lower international phone charges and compete more effectively.

Where The Telecommunications Sector Is Heading

¶3. (U) Over the last two years Colombia has experienced the rapid growth of mobile and internet networks. According to the Regulatory Commission on Telecommunications, in 2003 mobile and internet users increased by 33 percent and 60 percent, respectively, from 2002. In mid 2004, the number of mobile users surpassed the number of landlines. From 2000 to 2003, the overall penetration of mobile and internet services for every 100 Colombians increased from 5.3 percent to 13.9 percent and from 2.1 percent to 6.24 percent, respectively, while landlines remained at 17 percent. Earnings generated by mobile and internet networks represented 28 percent of total earnings for the telecommunications sector for 2003.

¶4. (C) The boom of mobile communications continues with the recent sale of BellSouth (Latin America) to Telefonica. The two main mobile service providers, Telefonica and Comcel, control more than 80 percent of the Colombian mobile market. The other mobile company is Colombia Movil or "Ola", which is jointly owned by Empresas Publicas de Medellin (EPM) and Empresas de Telecomunicaciones de Bogota (ETB), both owned by municipal governments. According to industry experts, Ola is in dire straits with its former president under investigation for mismanagement of funds, unsatisfied customers due to an increase in dropped calls and an unsustainable business plan. Another player in the mobile market, but without a mobile license, is Avantel, a U.S. trunked operator. Avantel uses technology similar to Nextel and had been in the Colombian market since 1998. Without a mobile license however, the other mobile operators refuse to interconnect with Avantel, causing Avantel to drop in market share from 7 percent to 1.5 percent. On December 16, President Uribe signed Decree 4239, granting full interconnection rights to trunking operators, including Avantel. Although this is good news for Avantel, the conditions and enforcement measures will be the key test for Avantel's success. According to the Colombian Association for Cellular Operators (ASOCEL), Sprint-Nextel

will buy Avantel if Avantel achieves the same access given to mobile operators.

A Voice of Reason

¶5. (SBU) A major blow to the state-owned companies came when Colombia's national telecommunications company, Telecomunicaciones de Colombia, declared bankruptcy in 2003. The end result was a "leaner" new company called Colombia Telecomunicaciones or "Telecom", which currently does not own the assets of the bankrupt company, but utilizes them to ensure continuity of phone service to over 900 municipalities. Its president, Alfonso Gomez, realizes the challenges Telecom faces and told econoff that Telecom will focus on Internet and Voice over Internet Protocol (VoIP) services. The young and innovative president also understands that the capital-strapped state company cannot compete head to head with the private telecoms. (One saving grace that these state-owned telephone companies have is time; the expiration date for the exorbitantly priced long distance license fees (USD 150 million) is 2008, Reftel B).

Talk of a Merger

¶6. (SBU) Gomez met in late November to discuss a merger with the other two long distance operators, Orbitel (which is owned by the Medellin city government) and ETB (owned by Bogota's city government). Following the merger meeting, then-Vice Minister of Communications, Maria Paula Duque, said "with the entry of multinationals and soon the FTA, the state-owned telephone companies have realized that the only way to compete in the future is to have better economies of scale." Although her statement is correct in principle, the idea of having an even larger state-owned player in the telecommunications sector is worrisome to foreign investors as well as to consumers. Duque believes that from a management point of view, a merger is an excellent idea, but according to industry experts it is counterintuitive to providing a transparent and competitive sector. The problem with a merger of the state-owned telephone companies, which combined have 87.5 percent of the total land lines in Colombia, is that Colombia's telecommunications land-line sector would become a nontransparent and noncompetitive market. Viewed in conjunction with the close ties between the telecommunications regulatory authority and the GOC, this could easily reinforce rigidities in the regulatory regime related to licensing and interconnection policies.

¶7. (C) In the sixth round of FTA negotiations, which followed the merger meeting in Colombia, the U.S. negotiator directly asked the Colombian negotiator if the telecommunications sector in Colombia was becoming less competitive due to talks of a merger. The Colombians refused to acknowledge any talk of a merger and asserted that nothing to date has affected the competitive climate in Colombia. Since the round, there has been no talk of a merger in the press or in the halls of the state-owned telephone companies.

The FTA

¶8. (C) The GOC is heading into the seventh round of the free trade agreement negotiations intent on preventing a carve out for mobile communication service providers (found in CAFTA and other U.S. FTA agreements), not in the interests of the Colombian mobile sector and the public, but in the interests of the government and the state-owned telecommunications companies. The state-owned companies feel that it's unfair that obligations set forth in the FTA only apply to fixed-line companies. Other issues to be addressed are illegal phone traffic and transparency.

¶9. (C) During the sixth round, the Colombian negotiators again asked for U.S. assistance to combat illegal international phone traffic, originating in the U.S. (Reftel C), via a side letter. Although the issue is still being negotiated, the FCC could not police the corruption within Colombia's state-owned telephone companies. The illegal traffic is almost exclusively using Voice over IP technology and the only companies that have access to VoIP are the state-owned phone companies. These companies also have a monopoly on both long distance and internet services. Thus, one part of the company is profiting from the illegal activity, while hurting the other.

Word On The Street

¶10. (U) A few telecommunication conferences have paralleled the FTA negotiations and have all focused on Colombia's future and the need for further deregulation. Many of the

speakers have focused on the need to modernize the industry's operations and infrastructure via foreign direct investment. They mentioned that public telecommunication companies, primarily ETB, Telecom, Orbitel, EPM, and EMCALI, should look to merge with private companies because the public sector does not have adequate access to capital and cannot react quickly to technology changes. Further, it has weak administrative and commercial departments, high labor costs and antiquated networks.

¶11. (U) Arguments against the privatization of the telecommunications sector span the commercial, financial and political spectrums. They assert that privatization will reduce national coverage, cut Colombian jobs and defy the 1991 Constitution (the Constitution states that the Colombian government must provide public services to all Colombians and telecommunications is a public service). The political opponents to privatizing claim that due to Colombia's high poverty level, privatization of the sector will force telecommunication operators to focus only on profitable regions in Colombia, leaving antiquated networks or no networks in rural and poor urban areas. Currently, Telecom is required to provide telecommunication services to all areas in Colombia, but if it privatized, opponents believe that Telecom would focus on the cities and bypass the rural poor areas. Commercial and financial opponents believe that privatizing would invite the major foreign telecommunications providers to enter the Colombian market, buy out the parastatals, slash Colombian jobs by the thousands, and reduce the government's revenues.

¶12. (C) Those against privatization consist of the Ministry of Communications, municipal officials, mayors, and obviously the state-owned operators. Colombian FTA negotiators are quick to point out that the privatization section of the telecommunications text had been previously deleted in prior U.S. FTA agreements. Lucho Garzon, mayor of Bogota, is the most vocal against privatization of the telecommunication sector, (Garzon and his own ETB, the second largest telecommunications operator in Colombia, provide the city with considerable revenues.) Medellin's mayor and council, who own EPM, the third largest telecom in the country, share a similar view.

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Trade Development Agency and the New Telecommunications Law
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¶13. (C) The Trade Development Agency has awarded a contract to a telecommunications consulting firm to conduct a market study for the Ministry of Communications. Areas to be studied are long distance license fees, deployment of broadband networks, the competitive environment of mobile communications, and enforcement mechanisms of the Ministry of Communications and CRT. The group will also propose policy options for the Ministry and CRT regarding spectrum, VoIP, license fees for new cellular and long distance operators, and unbundling. According to Ministry of Communications' officials, the study's findings will be used to help draft a new telecommunications law, which will be presented to Congress in March 2005. A key aspect of the study will be a proposal for a more autonomous regulator. Although CRT officials are in favor of a regulator independent of the Ministry, CRT officials, to include the Director, claim that the Ministry of Communications will not be in favor of relinquishing their hold over the CRT.
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